

Message Text

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C O N F I D E N T I A L KUWAIT 0620

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E.O. 11652: GDS

TAGS: ENRG, EFIN KU

SUBJECT: KUWAITI VIEWS ON US OIL POLICIES

REF: (A) KUWAIT 553 (B) KUWAIT 619

1. MINFINANCE AND OIL ATEEQI MADE FOLLOWING COMMENTS ON US OIL POLICIES FOLLOWING MY MENTION TO HIM FEB. 6 OF VISIT OF UNDERSEC ROBINSON TO KUWAIT (REF B).

A. WITH WORLD IN ENERGY SQUEEZE, USG IS TRYING TO FORNE DOWN INTERNATIONAL PRICE OF OIL WHILE AT SAME TIME RAISING PRICE IN US. THIS POLICY WOULD APPEAR TO BE GOOD FOR NO ONE EXCEPT US. AT OPEC MEETING, KUWAIT WORKED FOR STABLE PRICE FOR FIRST NINE MONTHS OF 1975--PRICE NOT OUT OF LINE WITH OTHER BASIC WORLD COMMODITIES AND PRICE WHICH WOULD PROVIDE INCENTIVE FOR SERIOUS EXPLORATION FOR ADDITIONAL OIL SUPPLIES AROUND WORLD AND SEARCH FOR ALTERNATIVE SOURCES OF ENERGY. PRICES SUBSTANTIALLY LOWER THAN THOSE AGREED UPON AT VIENNA WOULD KILL SUCH INCENTIVE, THUS PERPETUATING PRESSURES ON CURRENT OIL SUPPLIES. AT SAME TIME EUROPE AND JAPAN BEING ASKED BY US TO JOIN IN THIS ACTION TO FORCE PRICES DOWN, THUS JEOPARDIZING THEIR RELATIONS WITH PRODUCERS DURING PERIOD OF HISTORY WHEN ALTERNATIVE SOURCES OF ENERGY STILL NOT ON HORIZON. ONLY US, WHICH WAS LEAST DEPENDENT ON FOREIGN ENERGY, AND HAD MAJOR POTENTIAL FOR ALTERNATIVE SOURCES WITHIN THE COUNTRY, STOOD TO GAIN BY THIS APPROACH.

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B. BY HIS CALCULATIONS, ATEEQI SAID, VALUE OF US DOLLAR HAS DECREASED 9.3 PERCENT SINCE LAST SEPTEMBER. THUS REAL VALUE OF KUWAITI OIL HAS ALREADY BEEN REDUCED BY ONE DOLLAR PER BARREL.

C. WHAT WAS NEEDED, ATEEQI CONCLUDED, WAS STABILITY. OIL PRICE STABILITY WAS NOT GOING TO BE ACHIEVED IF PRODUCERS WERE LOCKED INTO FIRM PRICE WHILE CONSUMERS MANIPULATED PRICES WITHIN THEIR OWN COUNTRIES, AND PURCHASING POWER OF CURRENCY OF PAYMENT FOR OIL FLUCTUATED. STABILITY WORKED BOTH WAYS.

2. I REPLIED USG STATEMENTS MADE VERY CLEAR USG WAS SEEKING OIL PRICES THAT WERE EQUITABLY ALL AROUND -- THAT PROVIDED FAIR RETURN FOR PRODUCERS AND ENCOURAGED INVESTMENT BUT ALSO THAT CONSUMERS AROUND WORLD COULD LIVE WITH, TOO. LATTER WAS A "MUST" FOR WORLD ECONOMIC HEALTH ON WHICH EVERYONE DEPENDED. INCENTIVE TO INVEST IN SEARCH FOR ADDITIONAL ENERGY SUPPLIES DEPENDED ON REASONABLE PROFIT--DIFFERENTIAL BETWEEN COSTS AND SELLING PRICE AND CERTAINLY NOT ON HIGHER PRICES IMPOSED BY PRODUCERS WHICH HAD BEEN ACCOMPANIED BY PRODUCER GOVT SQUEEZE ON COMPANY PROFITS. MOREOVER, ANYTHING ALLEGEDLY "WASTEFUL" US DID TO DECREASE ITS DEMAND FOR FOREIGN OIL HAD TO BE GOOD FOR EVERYONE ELSE. AS TO VALUE OF US DOLLAR, I SAID, THERE WERE SPECIFIC AND TEMPORARY FACTORS INVOLVED IN ITS CURRENT DECLINE, AND THERE EVERY REASON BELIEVE DOLLAR WOULD CLIMB BACK UP IN DUE COURSE.

3. I TOLD ATEEQI UNDERSEC ROBINSON'S VISIT TO KUWAIT SEEMED PARTICULARLY TIMELY IN VIEW GOK'S EVIDENT CONCERNS REGARDING US OIL AND INVESTMENT POLICIES. ATEEQI SAID THAT IF HE WAS IN KUWAIT ON FEB 17, HE WOULD BE GLAD TO MEET WITH UNDERSEC ROBINSON. STOLTZFUS

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